Stop & Shop and the Consumer:

We're Listening.

The Stop & Shop Companies Annual Report 1974

Mrs. Florence Kmetz
Ralph J. Lordi

Arthur Norris
Mrs. Barbara Green
Avram J. Goldberg
Mrs. Karen Hayes
Mrs. Norma Cefalo

Carol R. Goldberg

Bernard A. Goldman
Mrs. Arlette Comer

Mrs. Barbara Rosenkrantz

Avram J. Goldberg

Mrs. Mary Hearne

Mrs. Florence Kmetz
Mrs. Diane Maurer
Donald W. Stowbridge
Dr. Fred Hooper

Anast W. Giokas
Mrs. Mary Hearne

Mrs. Mary Hearne
Bernard Solomon
Mrs. Mary Rahilly

Dr. Sam Goldblith
Mrs. Claire Smith

Mrs. Norma Cefalo
Carol R. Goldberg

Mrs. Mabel Anderson

Mrs. Shirley Taradash
Vincent Toscano/Amstar
Robert Mullen/Amstar
Saul Kolodny/Amstar

Sidney L. Goldstein

Dr. Sam Goldblith
Arthur Norris

Donald W. Stowbridge
Dr. Fred Hooper/General Mills
Mrs. Jennie A. Cassano
Dominick Cassano

Scenes from a meeting of the Stop & Shop Companies, Inc. Consumer Board

Comparative Highlights

	52 Weeks Ended February 1, 1975 (In Thousands)	52 Weeks Ended February 2, 1974 (In Thousands)
Sales	$1,223,791	$1,082,957
Earnings:		
Pretax Operating Earnings	17,317	15,237
Federal Taxes	7,211	6,377
Operating Earnings	10,106	8,860
% of Operating Earnings to Sales	0.83%	0.82%
Extraordinary Income	1,886	—
Net Earnings	11,992	8,860
Operating Earnings Per Share	3.20	2.81
Net Earnings Per Share	3.80	2.81
Reinvested in the Business	8,918	6,023
Dividends:		
Cash Dividends Paid	3,074	2,837
Per Share of Common Stock	.975	.90
Current Assets	122,847	118,267
Current Liabilities	74,626	79,681
Working Capital	48,221	38,586
Current Ratio	1.65	1.48
Stockholders' Equity	81,706	72,774
Stores Open At Year End:		
Supermarkets	156	155
Bradlees	65	63
Medi Marts	25	22
Perkins	39	38
Total Stores	285	278

Common Shares — New York Stock Exchange
(American Stock Exchange Prior to March 28, 1974)

1974

	Price Range High	Price Range Low	Dividend Paid
1st Quarter	18¼	14⅞	$.225
2nd Quarter	16⅞	13	.25
3rd Quarter	13⅝	10¾	.25
4th Quarter	13⅜	9⅛	.25
			$.975

1973

	Price Range High	Price Range Low	Dividend Paid
1st Quarter	19	13¾	$.225
2nd Quarter	16⅞	14¾	.225
3rd Quarter	18	13¾	.225
4th Quarter	16¾	13	.225
			$.90

Contents

Annual Meeting

June 3, 1975 at 1:30 P.M. at the First National Bank of Boston, First Floor Auditorium, 100 Federal Street, Boston, Massachusetts 02110

10-K

Copies of Form 10-K, to be filed with the Securities and Exchange Commission, are available without charge by application to:
Director of Press Relations
The Stop & Shop Companies, Inc.
393 D Street,
Boston, Massachusetts 02210

Senior management from left, Sidney R. Rabb, Avram J. Goldberg, Irving W. Rabb.

Shareholder's Letter

In February of 1974, at a troubled time in our country's history, we embarked on our second billion-dollar year with the optimism that is the retailer's hallmark. The food industry was still under Federal controls. Unemployment nationally had reached 5.7%. We were deep into the energy crisis. The strike of independent truckers in January highlighted the worsening transportation situation. "Double digit" inflation was upon us and was soon to get worse.

As a matter of fact, by the end of 1974 the state of the economy was clearly America's number one problem, with the experts debating only whether we were in a recession or a depression. And yet your company, and our people, achieved another year of record sales and record operating earnings.

Sales for fiscal 1974 were $1,223,791,000 compared to $1,082,957,000 in the previous year. We had net operating earnings of $10,106,000 or $3.20 per share, exclusive of extraordinary income, compared to operating earnings of $8,860,000, or $2.81 per share, in the prior year. The operating net included $353,000 or 11 cents a share, from the sale of the company's produce distribution center in Boston.

We had an extraordinary gain of $1,886,000 from settlement of insurance claims outstanding from the fire which destroyed our warehouse in the Readville section of Boston in August of 1969, a gain equal to 60 cents per share. Net income therefore was $11,992,000, or $3.80 per share in 1974.

Net Sales	1974	1973
	(In Thousands)	
Stop & Shop Supermarkets	$ 894,099	$ 788,764
Bradlees Department Stores, exclusive of licensees' sales	282,552	256,835
Medi Mart Drug Stores	38,699	30,480
Charles B. Perkins Tobacco Shops	8,441	6,878
TOTAL:	$1,223,791	$1,082,957

The book value of Stop & Shop stock at year-end was $25.90 compared to $23.08 at the close of 1973. Quarterly dividends to shareholders were increased 2½ cents on July 1, to 25 cents per share ($1.00 per share on an annual basis). The remaining issues of our Readville fire insurance claim were resolved last November. So once again we head into a new year, accepting the "problems" as challenges to be overcome while continuing to move steadily ahead.

One of the major strengths of a diversified company is the ability to offset a downward trend in individual industries. As is frequently true in a company as diverse as ours, 1974 was a mixed bag—with the plus factors outweighing the minus ones, and the major contribution coming from the Stop & Shop Supermarket Company. Phase IV controls terminated on April 10th, and the food industry struggled through the further trauma of renewed inflation, symbolized perhaps most dramatically by the explosion in the price of sugar. Utility costs for our supermarkets alone increased 46.9%, wage rates were up 10%, we received 14,495 wholesale grocery price increases during the year—even the cost of paper bags at the checkout counter rose 25%. The inevitable result was an inexorable and continuing rise in retail grocery prices—never enough to "catch up," but certainly enough to disturb our customers—and indeed the entire community. We hope that good weather and bumper crops in 1975 will have a leveling effect on food prices—and the early indications are that this is happening. We should also recognize that retailing is an "item business"; our customers adjust the mix of items in their individual market baskets when they shop, based on their own preferences, their needs, and their individual reactions to prices and special sales. Thus, a combination of plentiful supply and consumer resistance in 1974 actually reduced prices for meat, cheese, coffee, and some fresh fruits and vegetables.

When sugar prices soared, we urged our customers not to buy—and together we helped roll back at least a portion of the stratospheric rise.

Obviously, further efforts were needed to improve our profit picture. We firmly believe that our people understand the fundamental stake they have in the health of their company. Through their efforts, we actually achieved increased productivity throughout our food distribution pipeline, from receipt in our warehouses to the point of sale.

The Manufacturing Division made an outstanding contribution. Our Bakery rebounded from the effects of 1973's strike with excellent morale, new items and better all around performance. We report with pleasure that the Photo Finishing Plant exceeded our projections. The Marlboro Meat Plant continued to improve, with a decline in the market price for some of its by-products balanced by an increase for others. A modest addition to the building and continued refinement of equipment and processing techniques helped to achieve markedly increased productivity and efficiency.

We continued our steady planned phasing into the world of electronics at store level, with constant regard for the interests and desires of our customers. By year-end we had equipped 27 supermarkets with electronic checkouts. Ninety percent of our Stop & Shop label products should display their own specific Universal Product Code symbols by mid-1975. In April of 1975, we began our first test of electronic scanning with an IBM system in our Braintree, Massachusetts store. At the same time, we are interacting intensively and directly with our customers and our 46 Consumer Boards on the major issue of whether prices should be removed from the individual cans—and if so, how to maintain absolute customer confidence in the integrity of the food distribution system.

In the meantime, until the food industry has had the opportunity for further basic research and customer reaction, we regard as counter-productive efforts to make item pricing mandatory.

For our Bradlees Company, 1974 was a difficult year, as it was for the entire department store industry. Bradlees was subject to the same inflationary costs as our Supermarket Company. But the deepening recession greatly altered the economic situation of American middle class customers, the main segment of Bradlees' market, and severely restricted their discretionary purchasing power. As a result, although Bradlees' sales were somewhat ahead, profits were down substantially from the previous year. In the face of an extreme promotional atmosphere during the holiday season and highly selective consumer demand, our goals were: to maintain and even to improve our competitive position; to keep our organization appropriately lean; and most important, to move into 1975 with a low level of well-balanced, fresh inventory. The achievement of these goals required a determined markdown program, with the inevitable downward pressure on gross margins—but we are truly gratified that they were in fact accomplished.

Perhaps the most important single factor in the mass merchandising business is the level and quality of inventory. Bradlees finished 1974 with its inventory, after adjusting for new stores, only 2% greater than the year before. Furthermore, we have greatly reduced our commitments for imported merchandise, thus increasing our flexibility and our ability to adjust. Wholesale costs are stabilizing and even declining in some cases. While we expect the economy to improve gradually over the year, we intend to remain lean, buying as demand increases—and not in anticipation of it.

The Medi Mart Company in 1974 established its market identity as a source of convenience items and necessities, particularly in the health care area—doubly appreciated when people have to save money. Medi Mart appears to be relatively "recession proof," and sales and earnings continued to improve. In the 1973 Annual Report, we stated that "its major need is more stores in our existing operating areas." That is still the case. An intensified location program takes two to three years to get into high gear; and that is particularly true in the current real estate and financial climate. But we are hopeful of accelerating Medi Mart's expansion in 1975 and 1976.

Our Perkins Company continued to move ahead in sales and earnings during a year of consolidation which saw the opening of only one store.

The health of The Stop & Shop Companies enabled us to continue as leaders in Consumer Affairs, and social responsibility. We hope you will read the section of this Annual Report outlining our history of involvement in the Consumer Movement. We are particularly proud of our Consumer Boards, an effective ongoing system of interaction with alert, critical customers. In 1974 the local Boards held 225 meetings from Maine to New Jersey; we developed a new, panoramic role for our Stop & Shop Companies Corporate Board; and we published 43 issues of Consumerism, a new Consumer Affairs publication which in turn generated 4,000 letters from customers. In March of 1975, we publicly endorsed the federal bill creating an Agency for Consumer Advocacy—and our position was inserted in the Congressional Record by Senator Jacob Javits of New York. A copy of that statement is included in this report.

We continue to work for equal employment opportunities for all our citizens. In 56 meetings in all of The Stop & Shop Companies our people developed a detailed Affirmative Action Plan, with a timetable and specific goals.

We have continued our planned program of capital investment. In addition to updating some of our support and retail facilities, we opened 3 Bradlees, 4 Stop & Shop supermarkets, 3 Medi Marts and 1 Perkins Tobacco Shop. We successfully moved from a "contract haulage" transportation system into one we manage ourselves, under the direction of William M. Vaughn III, who rejoined Stop & Shop after fourteen months of service with the Federal Pay Board. We continued to operate our South Boston Perishable Distribution Center, which was sold in the first quarter of 1974, while planning our new center in our Readville, Massachusetts, distribution complex. Construction on the new building began in February, 1975.

But, of course, our people are still the key to our success. Our "People On The Move" in 1974 included Arthur Norris, named Vice President, Technological Development and Quality Control, a new position; Bernard A. Goldman, Vice President, Manufacturing; Arthur Robbins, Vice President, Accounting, and continuing as Assistant Treasurer; Richard H. Donlan, Vice President, New Jersey Division, Supermarket Company; Joseph McGlinchey, Controller; Martin Baker, Vice President, Marketing, Bradlees; and Jean Judge, Consultant on Consumer Affairs. Moreover, we were able to effect major improvements in employee benefits, both in the labor union contracts negotiated during the year—and for our associates who are not members of unions. Twenty-three thousand families draw their livelihood and security from our company. In fact, Stop & Shop is the fourth largest private employer in Massachusetts. This fact simply underlines even more dramatically our responsibility to keep the financial underpinnings of our company strong and growing.

We are proud of the continuing reduction of our long-term debt. On March 28th, 1974, as planned, we were admitted for listing on the New York Stock Exchange.

As part of our financial planning, we have considered converting to the LIFO method of evaluating inventory. After carefully weighing the advantages and disadvantages for a multi-divisional, fast turnover, retailing company—we have decided to continue utilizing FIFO. Finally, we are pleased to report that the suit by 42 California grape growers against Stop & Shop (described in last year's report) was dropped in January, 1975, without payment of any damages.

So we face the new year with confidence in the financial strength of your company; the merchandising and operating strength of all of our Stop & Shop Companies; and the ability, enthusiasm and commitment of our people. With their support and with yours, our stockholders, we believe that our greatest achievements still lie ahead of us.

Sidney R. Rabb
Chairman of the Board

Avram J. Goldberg
President

Stop & Shop Supermarkets

A marketing strategy responsive to changing shopping patterns and sensitive to consumer concerns, made 1974 a year of record sales and of satisfactory profits for The Stop & Shop Supermarket Company.

The marketing program was carried forward under the slogan, "Getting your Stop & Shopsworth." It was directed at the value-conscious consumer who, faced with soaring food prices, more and more was traveling from supermarket to supermarket, searching for advertised specials, as one means of coping with rising food prices.

We made frequent and imaginative use of coupons and coupon books. We acted immediately to cut our retail prices as soon as we received cost decreases. We alerted customers to the most advantageous buys of the moment.

A striking illustration of this policy was in our response, first, to soaring sugar prices, and then, when the price broke in late November and began to decline, our reaction to that development.

When our fiscal year began, for example, sugar at wholesale was $1.03 for a five-pound bag. On November 24, it peaked at $3.77 and at the end of the year it was down to $2.51.

We held back passing on the increases as long as we could prudently do so; when our supplier announced price cuts, however, we "broadcast" reductions to the stores by our telephone network, rather than wait for Store Mail.

It is also worth noting that although grocery prices were up substantially in 1974, as compared to 1973, about 20 percent on average, retails for meat and produce at year's end were actually down from the previous year.

In September, we "froze" prices for 30 days on 300 Stop & Shop brand items—to give our customers a breathing spell, and perhaps a chance to stock up.

Sidney L. Goldstein

In October, responding to overwhelming customer sentiment, we adopted a "no-repricing on the shelf" policy. We warned, however, that the policy was not a solution to the problem of high prices, that the solution would come only with increased production or lower demand.

A major customer relations project was launched with the Boss' Promise campaign to keep the customer aware of Stop & Shop's commitment to customer satisfaction. We coupled this with a month long promotion using a Stop & Shopsaver Coupon Book with significant savings for our customers.

Just before the end of the year, we introduced new Unit Pricing tags in all our supermarkets, a project involving an initial order of more than 1,500,000 tags. They are far easier for the customers to read and can be produced with two parts, to allow us to carry out our "no-repricing on the shelf" policy in our supermarkets.

During the year, we continued our careful progress towards implementation of the Universal Product Code through electronic registers with automatic scanners. At every step of the way we have actively solicited the views of our customers through the medium of our CONSUMERISM newsletter and our Consumer Boards. An in-store, pilot project of the first total electronic scanning system began in early April in our supermarket on Liberty Street, Braintree, Mass.

To ensure profitability in the face of continuing increases in all costs of doing business, we imposed even more stringent and tight controls on expenses, and continued to seek ways of achieving increased productivity.

Better expense control was a major contributing factor to our ability to absorb a negotiated pay increase of about 10 percent for our store people.

Richard H. Donlan was named Vice President for our New Jersey Division; Jack Kushinsky became Director of Financial Management and Administration, Ernie Krupa was appointed Chairman of Market Managers for our Boston Division.

We continued in 1974 our program of updating our stores for greater efficiency in sales per square foot, by relocation in some instances and by the closing of inefficient units in others. Average sales per store rose in 1974 to more than $5.7 million. We opened four units in Massachusetts: Chelmsford, Walpole, Brookline and Church Park, Boston.

We expanded three stores in our Connecticut Division: Fairfield, Connecticut and Pittsfield and Springfield, Massachusetts. We closed the units in Acton, Burlington and East Boston, Massachusetts, because they did not meet our standards for upgrading into "stores of the future."

That will continue to be our goal, to operate the "store of the future" along the tested principles of Stop & Shop.

Bradlees Department Stores

For the American economy, 1974 was a difficult year, and it is too early to tell whether 1975 will be dramatically better.

For the Bradlees Company, also, 1974 was—to say it plainly—disappointing. But with a very sound inventory position, Bradlees is organized to make 1975 a better one.

In 1974 sales volume was up, almost in pace with inflation, but for the first time in recent years, profit was substantially down from the prior period.

To understand the reasons for that decline, a brief history from the retailer's point of view is in order.

1974 began on the upbeat, with sales strong and prospects promising.

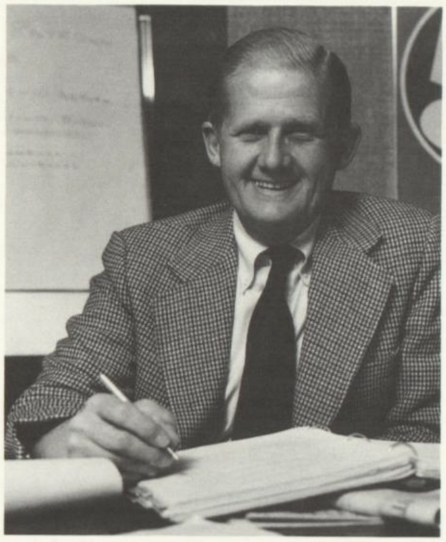
Shortly after Easter, however, sales turned flat and we moved into a very aggressive sales promotion stance in order to protect and improve our competitive position.

We increased our sales, but markdowns had the inevitable effect of lowering gross margins.

This situation was further exacerbated by the erratic pricing and promotion of several troubled retailers. Meeting competitive prices added further downward pressure on our gross margins, especially toward the end of the year when traditionally we achieve our highest profits as a percent of sales.

During the past two years we have experienced an inordinately high incidence of new competition in all of our market areas. Although Bradlees is extremely well positioned to compete with the strongest of our competitors, there is usually a slowing of individual store growth when new, well-merchandised retailers open nearby.

Robert J. Futoran



During 1974 we experienced, for the first time in several years, an increase in our shrinkage rate. This was particularly true of stores in urban locations and with older surveillance systems. We have already embarked on a major program to reverse this trend, with emphasis on control at store level, and we expect that 1975 will see improvement in this area.

Of course, inflation, particularly in the areas of higher fuel, utilities and maintenance costs, was particularly severe in 1974.

Yet, despite these many problems, Bradlees has come through this trying period in a stronger position. As noted above, our inventory is in excellent condition, both from the point of view of total dollars and content. We ended the year with a total inventory, after adjustment for new stores, that was only 2% higher than a year earlier, and with one of the best sales to year-end inventory ratios in the entire industry.

We have continued our scrupulous policy of eliminating all previous season's apparel merchandise and have extended that same policy to hardlines, with only rare exceptions.

During the year, we opened new stores in Walpole and Burlington, Massachusetts and Orange, Connecticut.

We have made important additions to our staff: Mr. Philip Hiscock as the Director of Market Management, and Mr. Martin Baker as Vice President for Marketing. Both of these men bring to Bradlees extensive backgrounds in their fields.

In 1974 we substantially increased our share of sales in the overall Boston Market, and today Bradlees is a leading discount retailing factor in Greater Boston.

During the last weeks of 1974, we effected substantial cuts in major expense areas of our operation. By the time the fiscal year ended, Bradlees was a lean and hungry retailer, ready aggressively to take advantage of the opportunities which exist in the current economic climate.

We restructured our field organization from seven to five markets, pinpointing New Jersey as a separate and complete unit, which must be managed with a high degree of priority and urgency. We are continuing our emphasis on the importance of high quality, experienced Store Managers—and are constantly upgrading our standards for that important responsibility.

In the year ahead we are determined and ready to improve both our share of market and our profits, to make certain that Bradlees comes through the current serious recession in a far stronger position than at any time in its past.

Medi Mart Drug Stores

For Medi Mart, 1974 was a year of greater acceptance by the consumer of "the big, friendly drug store," and a year of innovation and challenge.

One innovation was the introduction of plant shops in our stores in Newton, Massachusetts and Westport, Connecticut. Results to date have been gratifying and point to further expansion of this concept. Another was in the publication and distribution of a prescription price list in the Massachusetts marketing area. Listed in this pamphlet were the prices of some of the more commonly prescribed brand name drugs and information concerning their generic equivalent where available. In Connecticut we introduced a Senior Citizen Health Care Program, and in New Jersey a Senior Citizen Discount Program, both designed to give greater purchasing power to those people on fixed incomes.

Three stores were opened in the Greater Boston area—in Newton Centre, Natick and Brookline's "The Pharmacy" which is adjacent to a Stop & Shop Supermarket, bringing our chain total for 1974 to 25 units.

To give added strength to both our headquarters and field organizations, we named two new Vice Presidents, Timothy A. Hays to Vice President, Stores Operations, and Seymour (Shim) L. Silverstein to Vice President, Merchandising; Michael O'Grady was promoted from Manager of our Wyckoff, New Jersey, store to Buyer-Merchandiser; and Donald Benovitz, Michael Burkett and Richard Moed were promoted to the newly-created position of Market Manager.

Robert J. Levin

New prescriptions and renewals set records in the year. Our health programs—Community Hypertension Evaluation Clinics supported by the medical and nursing professions, Patient Profile Systems in Massachusetts and New Jersey, dissemination of literature on Venereal Disease, Drugs, Cancer—became accepted aspects of the life of the communities where we operate.

Medi Mart's "WE CARE" program continues to be a way of life as demonstrated by our concern for the health and welfare of our employees and, in turn, their total commitment to our customers.

Perkins Tobacco Shops

For Perkins Tobacco, the youngster in the Stop & Shop family, it was a year of robust growth in sales and profits.

The sales growth was assisted by an aggressive merchandising program, along with a stepped up advertising campaign designed to help stores maintain their market position and to assist the newer units in establishing themselves.

To make them profitable sales, Perkins Management focused on four areas:

- Refinement of operational controls at store level.
- Expansion of the blended tobacco and broadened cigar programs to more stores.
- Improvement of the layout and merchandising techniques in our Bradlees Departments.
- Continuing review of store profitability to insure that each unit is a store of the future.

In the year we opened a new store at The Mall at Chestnut Hill, Massachusetts (as noted in the 1973 report) and began trial of a new type department at the Bradlees in Burlington, Massachusetts.

Peter Aubrey was named Field Supervisor, Boston North Zone, and David Kerr was named Assistant Buyer, both appointments being made from within the Perkins Company.

We expanded our combined buying structure so that Perkins now supplies not only all its own stores, but all Medi Mart Drugstores, along with the Service Department Tobacco Departments in Stop & Shop Supermarkets, with tobacco products and sundries.

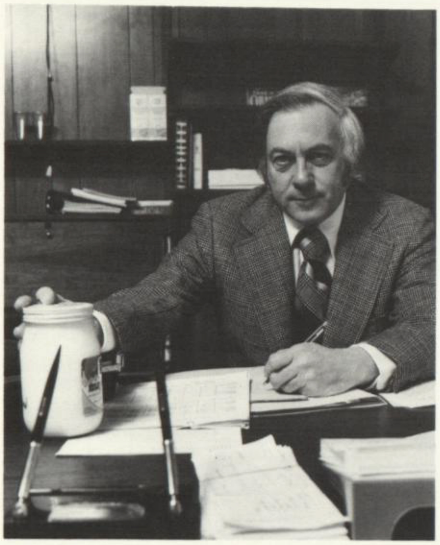
During the year, we intensified our campaigns against pilferage and inventory shrink and tightened controls on store inventory level.

We are pleased to report substantial consumer acceptance of our Special Blended Tobaccos program, which offers the customer a variety of the highest quality pipe tobacco, weighed out over-the-counter from bulk supplies, and of our higher priced domestic and imported cigar categories.

Perkins private label products introduced in 1974 were Royal Derby, Braeburn and Russet Grain Pipes, Ensign Maduro and Espaditas Cigars, and a very successful variety of tobacco pouches.

Manufacturing

Bernard A. Goldman



The Manufacturing Division was reorganized in September, and Bernard A. Goldman was appointed Vice President with responsibility for our manufacturing operations.

Arthur Norris, with the title of Vice President, Technological Development and Quality Control, continues to be responsible for those areas and for the operation of our Meat Plant at Marlboro.

The reorganized division had a highly successful year in all of its areas in 1974.

Our new Photo Lab exceeded our projections in terms of both volume and profit, in spite of the necessity of converting our entire chemical process from Kodacolor to Kodacolor II in order to stay abreast of developments in the industry. Peter Ferragi became Plant Manager at the Photo Lab, with Frank Hubatsek succeeding Peter as Production Manager.

At the Bakery, changes in the work rules under the new union contract made possible the elimination of inefficiencies, which in turn helped to make it a good year. We achieved those results despite erratic, sometimes violent, swings in the price of such commodities as sugar, oil and flour. Those commodities were always available, but for much of the year only at record costs.

When Jack Kushinsky became Director of Financial Management and Administration for the Supermarket Company, we were pleased to be able to promote from within, naming Albert Murphy as Plant Manager at the Bakery.

At the Dairy, the packaging of orange juice from concentrate under the Stop & Shop and Sun Glory Labels was off to a very good start. By year's end production had reached a point equal to nine percent of the Dairy's milk production.

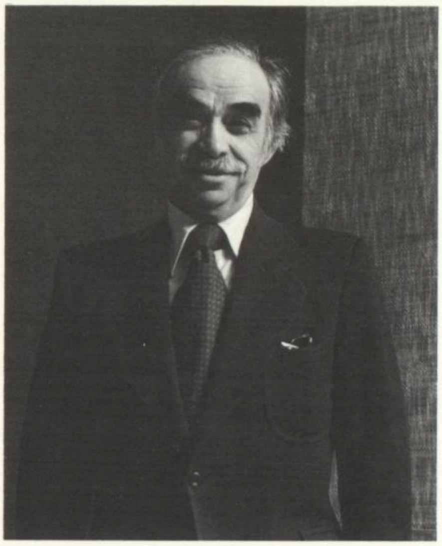
Although the potato chip industry generally reported a decline in sales, tonnage from our potato chip plant increased six percent from 1973. Also, thanks to an advertising campaign making innovative use of brochures — "Parties to go" — and television, our sales of party platters doubled those of 1973.

To strengthen our ever more sophisticated Quality Control activities, Quality Control Managers now report directly to Division Headquarters, rather than to Plant Managers as in the past.

Evening instruction courses in languages (English-to-Spanish) and Accounting were held at the Commissary and the Bakery.

We now schedule monthly safety meetings at the Bakery and the Commissary, and the Bakery has begun publishing a monthly newsletter on safety. We are pleased to report a 12 percent reduction in the number of days lost as a result of accidents.

Arthur Norris



Technological Development & Quality Control Marlboro

For the third successive year, our Meat Processing Plant at Marlboro exceeded our expectations, both in terms of profitability and its importance to our meat business.

In another step towards making the plant a totally independent facility, we began the boning of cows, to produce a major portion of that product that was formerly purchased from outside suppliers as an ingredient for ground beef.

We also began a project to produce frozen portions of beef, to make better use of certain cuts and to develop a more meaningful liver business. At year's end we were involved in the testing of a mechanical separator to strip meat from bone.

We participated with both farmers and feeders in a number of experiments involving the feeding of cattle on grain and grass, and the effect of such feeding programs on the grade and yield of steers, heifers and bulls.

The plant itself was expanded by a total of 12,000 square feet, to allow for improved and even more sanitary handling of baskets and containers, and to provide more warehouse space.

We believe refinement of our program of Quality Control and Assurance is essential to give the highest priority to our Corporate Quality Control program, to ensure greater value for our customers and the long-term health and growth of all our operating companies.

We have had the benefit of advice from two outstanding consultants: Dr. Samuel A. Goldblith of Massachusetts Institute of Technology, and Dean David Pfister of Lowell Technological Institute; and went forward with these activities:

- A complete review of Corporate Quality Control functions in terms of reporting, methodology, sampling, etc.
- Development of improved sanitation and record-keeping procedures at our Bakery, in anticipation of the forthcoming labeling requirements of the Food and Drug Administration, and of testing and sampling procedures for the Nutritional Labeling requirements which will become effective July 1, 1975.
- A program of Quality Control and Assurance for the Bradlees Company; and the design and planned construction of a Quality Control Laboratory for the testing of soft goods for Bradlees.
- Updating the Quality Control procedures in the Supermarket Company, to establish standards for the packaging of products as well as standards for the products themselves.
- Enlargement of the Medi Mart program, with emphasis on Private Label merchandise and generic drugs.

Perhaps most important of all, we have established that Quality Control and Assurance standards and procedures must be applied consistently and universally throughout all The Stop & Shop Companies.

We're Listening

It didn't happen overnight, but after 60 years in the business of selling goods people need, we think we can say we know our shoppers better than anybody. We're sure they know us better than anybody, too, and that knowledge is a very special thing. It means we've grown together, and today, instead of acting as distributors for producers' goods, we are becoming purchasing agents for our shoppers, almost advocates for their needs.

Recently, as shoppers recognized more about their own needs, and have grown ever more sensitive to price and value, we have become aware of a need to expand that role further, into that of a COMMUNICATOR between our customers and our suppliers.

We are the first to know when our customers make the decision that safe toys are more desirable than cheap toys, that sugar may be desirable in the diet but not in the traditional quantities; that technological advances may be made only in step with human capabilities.

We had been listening for years, but in the mid 70's, with the rise of the consumer movement on the one hand, and the developing problems of inflation and recession on the other, we began to understand we had to do more.

To make use of what we were learning, we had to make the producer and the processor listen. We had, in short, to do again what our Chairman, Sidney R. Rabb, had always urged upon us: "Get closer to the action!"

We were aware we had a uniquely effective action instrument at hand, our Consumer Boards, an example of direct, human interaction and person-to-person communication.

The Stop & Shop Companies Consumer Board had been invaluable in the development of Bradlees PLAYSAFER campaign; the local boards, now numbering 45, had given us fresh points of view on such "panoramic" subjects as prescription advertising, the electronic checkout, the whole spectrum of product labeling.

It is seven years since Carol Goldberg, then Marketing Services Vice President, first suggested that we set up a Consumer Board at South Plainfield, New Jersey, for guidance as we began operations in that state. Since then more than 2,500 men and women, many but not all of them Stop & Shop customers, have participated.

There has been a steady flow of information from our customers to our Store Managers and Company executives, and from our managers and executives to our customers.

It wasn't long before we realized we had to become a conduit for carrying that information to others.

We began to invite third parties to our Board meetings, representatives of such respected producers as Scott Paper, Revlon, Armour, Pillsbury. We talked about shortages, about the fat and protein content of hot dogs, about the cost of cosmetics and the impossibility of measuring "beauty," and about world trade in wheat.

For our suppliers, the meetings gave new insights into the needs of the consumer, insights which will inevitably result in better products and better service.

The success of the Consumer Boards program had also the effect of priming the pump of information in other ways.

In May of 1974, we began publishing our CONSUMERISMS newsletter, with advice on shopping, seasonal menus, tips on making do without high-priced commodities.

We asked the readers of CONSUMERISMS to write, with comments, complaints, compliments.

And they did.

By year's end, our Department of Consumer Affairs, headed by Karen Hayes, had logged 4,000 letters!

The letters asked advice and gave it. One we particularly like was from a woman in Tewksbury, Massachusetts, who said of the time spent with CONSUMERISMS:

"I consider this half-hour my 'Consumer Education Course,' realizing that becoming an efficient homemaker takes knowledge and an effort to keep informed."

CONSUMERISMS has proved invaluable as we follow our carefully charted course towards implementation of electronic scanning and the Universal Product Code. It was the vehicle for assuring our concerned customers we would keep prices on individual items in the early stages of UPC. We got more feedback on UPC through presentations on the subject to our area boards. During the year, we made such presentations to more than half of them, and at year's end we were planning for a major presentation to The Stop & Shop Companies Consumer Board.

Members of our Department of Consumer Affairs. From left, Polly Richenburg, Mary Tamar Ball, Karen Hayes, Sue Nelson.

CONSUMERISMS and the Consumer Boards had hammered home an important point on another subject, our computer-produced Unit Pricing tags. They were hard to read, easily torn, and altogether unsatisfactory.

By year's end, we had produced a new and more legible Unit Pricing Tag for all our supermarkets. The new tag was offset printed, on durable plastic, and has an adhesive backing to prevent drifting on the shelf rail. We had it designed so that, when appropriate, it comes in two sections, to allow us to carry out our policy of not re-pricing on the shelf in our supermarkets.

The need for communication between customers and suppliers was never more evident than when sugar prices began to skyrocket early in 1974.

Our customers, as we knew they would, reacted, mildly at first, then with ever greater intensity. People cut down, substituted, did without.

Stop & Shop encouraged its customers, by signs and advertisement and through CONSUMERISMS, to "rethink" their need for sugar.

It was soon obvious more was needed. We set in motion a project perhaps unprecedented in its implications for the retailing industry.

We invited representatives of the sugar industry, soft drinks producers and food processors to the November meeting of our Stop & Shop Consumer Board. They met, face-to-face with consumers from all of our operating area, sharing a single concern, the high cost of sugar. We were particularly pleased during the course of the meeting to note that the participants were as eager as we were to learn more about sugar.

We knew now we were on the right track.

A respected economist, speaking from his point of view, warned that in spite of a boycott of almost any dimensions in the United States, the price of sugar would not come down until October of 1975 at the earliest.

He based that prediction on world, rather than national, conditions, and we accepted it as a sincere expression of the industry's thinking. But as the purchasing agent for our customers, we concluded by continuing to urge them to curtail their purchases. And it is an historical fact that within the month, at Thanksgiving, the price of sugar peaked, then broke and began a slow, downward slide. Something, obviously, had happened.

That something, of course, was the consumer, bringing the law of supply and demand into play, doing what all the governments and all the economists had not been able to do.

We were not surprised. We had seen it before. The consumer was ahead of the industry.

Nor were we surprised that the decline in the price of sugar was almost painstakingly slow, because we were also aware that the economist was right when he said the ultimate solution to the sugar problem was a substantial increase in supply.

Both "sides"—if we can use that term without any adversary overtones—had learned much from the meeting.

We learned that the consumers can channel their energies and can bring effective pressure to bear on the private sector to be more responsive to their needs.

What we have learned from our consumer program—was a major factor in our decision, in March of 1975, to endorse legislation then pending in the United States Senate, to establish an Agency for Consumer Advocacy in the Federal government.

We made the endorsement on behalf of all our retailing family—Stop & Shop, Bradlees, Medi Mart and Perkins—and in so doing became the first major food retailer to urge passage of this landmark consumer legislation. The record of our action follows:

United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 94th CONGRESS, FIRST SESSION

Vol. 121 WASHINGTON, MONDAY, MARCH 24, 1975 No. 49

Senate

STOP & SHOP CO'S., INC., ENDORSE AGENCY FOR CONSUMER ADVOCACY

Mr. JAVITS. Mr. President, over the years, there has been considerable opposition from various segments of American industry toward legislation to establish an Agency for Consumer Advocacy. It has been suggested in the past that this is probably the most lobbied-against bill by business interests in recent years.

This year, we have the legislation before us again in the form of S. 200, principally sponsored by Senator RIBICOFF, Senator PERCY, Senator MAGNUSON, Senator MOSS, Senator CRANSTON, and myself, and cosponsored by another 38 Senators. It is a bill which will shortly be on the floor of the Senate, having been favorably reported by an 11-to-1 vote of the Committee on Government Operations.

Over the past several years, a number of businesses, formerly opposed to the creation of an Agency for Consumer Advocacy, have now begun the process of rethinking their prior opposition. S. 200 is a delicately balanced bill which has been refined in such a way as to assure that responsible businesses will not be unduly harassed and that the processes of other agencies of Government will not be unduly delayed or upset. The passage of the measure will assure that, once and for all, American consumers can expect to have their voices heard and considered in Government decisions concerning such vital issues as recession, inflation, health, safety, and all too common economic frauds.

As an indication of what appears to be an increasing level of support from within the business community with respect to S. 200, I am delighted to share with my colleagues a statement of endorsement for the measure and for what it proposes to do from Mr. Avram J. Goldberg, president of the Stop & Shop Companies, Inc. I note that the Stop & Shop Cos., Inc., operate 157 supermarkets, 67 Bradlees Department Stores, 27 Medi-Mart Drug Stores, and 39 Perkins Tobacco Shops throughout New England, New York, and New Jersey. The company employs 23,000 people and in 1974 had retail sales of more than $1.2 billion.

Prior to S. 200 being considered on the Senate floor, I fully anticipate that numerous other responsible businesses and outstanding leaders within the business community will join Marcor, Zenith, Polaroid, Stop & Shop, and other supporters of this proposal, in endorsing an Agency for Consumer Advocacy.

Mr. President, I ask unanimous consent to include the full text of the statement of Stop & Shop President Avram Goldberg in the RECORD at this point:

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY AVRAM J. GOLDBERG, PRESIDENT OF THE STOP AND SHOP COMPANIES, INC.

"The Stop and Shop Companies, Inc. endorses Senate 200, a bill to establish an Agency for Consumer Advocacy, and urges its passage in this session of Congress.

This legislation will make possible planned and regular consumer involvement in the governmental decision-making process. For nearly a decade, consumer advocates have sought departmental recognizition of that right. Stop and Shop now adds our voice to those seeking such recognition.

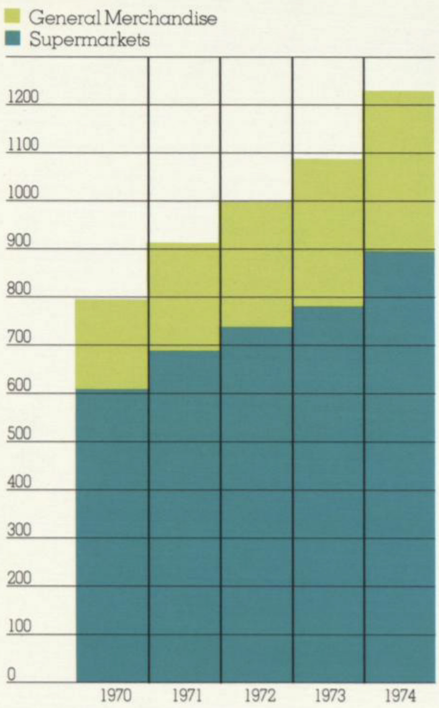
Stop and Shop has always firmly believed in a philosophy of consumer input in our daily business lives. We believe it only right that the Federal government receive that same input. Every day we make decisions which affects the consumer, such as open dating, toy safety. The Universal Product Code. Therefore, we formally involve the consumer in our decision-making through inter-action and dialogue with our customers — all the way from our individual store managers to our senior executives. Right now we have 46 consumer boards in 7 states — with almost 1,000 members who meet regularly with us. They provide that essential consumer input, and frequently have influenced changes in major company policies and procedures. In addition, our company has a strong and growing department of consumer affairs, professionals headed by Ms. Karen Hayes, who interact on a constant basis with company executives at all levels.

Our experience over the last 8 years, particularly with our consumer board program, has proven to us that the same philosophy, systematically organized and recognized at the Federal level, should have the same beneficial impacts on governmental decisions and decision-makers — as it has had on us. S. 200 provides the means by which consumer advocates will be heard, along with the representatives of business, the professions, unions and the other groups which make up our society, as Federal agencies perform the tasks entrusted to them. Finally, we are pleased that the present bill has built into it reasonable safeguards adequate to allay the understandable concerns of the American business community."

(The Stop and Shop Companies, Inc. operates 157 Stop and Shop Supermarkets, 67 Bradlees Department Stores, 27 Medi-Mart Drug Stores and 39 Perkins Tobacco Shops in New England, New York and New Jersey. The company employs 23,000 people and in 1974 had retail sales of more than $1.2 billion.)

Financial Statements

Net Sales (In Millions)



Management's Analysis and Discussion of Operating Results

Total sales for 1974 increased by $140,834,000 or 13% over 1973. Supermarket sales increased by $105,335,000 or 13.4% and general merchandise sales increased $35,499,000 or 12.1%. The overall sales increase resulted from intensive merchandising efforts, the addition of new stores and the remodeling of several existing stores; and, to some extent, reflected the inflation which existed in 1974.

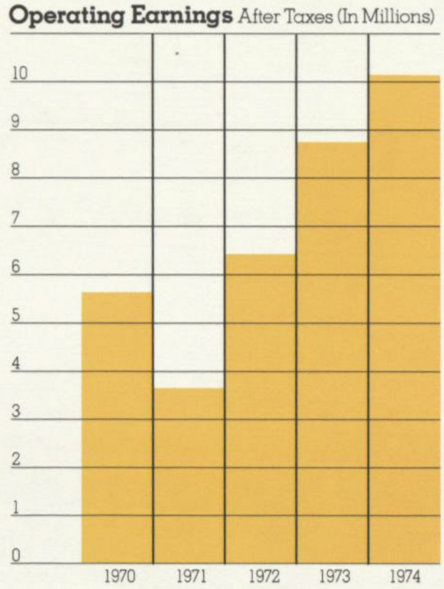
Total sales for 1973 increased by $88,488,000 or 8.9% over 1972. In that year Supermarket sales increased by $54,967,000 or 7.5% and general merchandise sales increased by $33,521,000 or 12.9%. The increase in 1973 general merchandise sales is attributed to the favorable retail climate then existing and the additional stores opened in that year.

Costs and expenses for 1974 increased by $138,262,000 or 13.2% over 1973, just slightly more than the percentage increase in total sales. The costs of doing business increased dramatically in many areas of the Company's operations due to inflation, particularly the costs of goods, wages, utilities and supplies. Advertising and promotional expenses also increased because of increased competition and aggressive merchandising. Costs and expenses during 1973 increased by $81,720,000 or 8.5% over 1972, slightly below the total sales increase for that year.

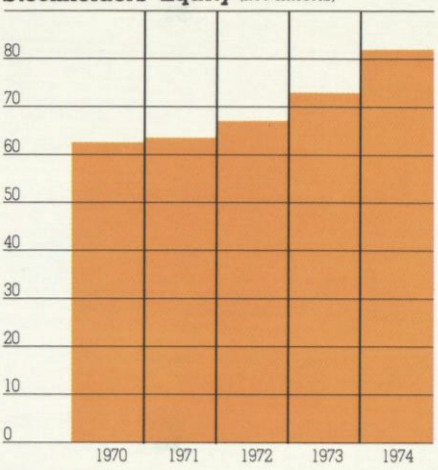
Net interest expense other than mortgage debt for 1974 decreased by $420,000 or 13.8% from 1973 and in 1973 such interest expense decreased $367,000 or 10.8% from 1972. These decreases were due primarily to reduced short term borrowing as a result of changes in cash management initiated in 1973 and 1974 and the short term investment of surplus cash.

Operating earnings for 1974 amounted to $10,106,000, an increase of 14% over 1973. The 1974 results include a gain of $353,000 on the sale of the Company's produce distribution facility in Boston, Ma. Operating earnings for 1973 were $8,860,000, an increase of 38% over 1972. Operating earnings as a percentage of sales were .83% in 1974, .82% in 1973 and .64% in 1972.

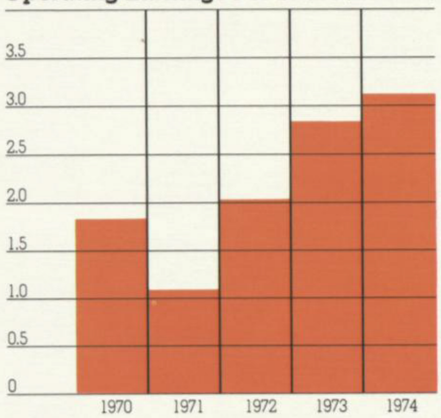
Operating Earnings After Taxes (In Millions)



Stockholders' Equity (In Millions)



Operating Earnings Per Share (In Dollars)



In addition, in 1974 the Company realized extraordinary income of $1,886,000 from settlement of the fire insurance claims referred to elsewhere. In 1974 the effects of high unemployment, the economic recession and increased competition resulted in lower margins and a substantial decline in the contribution by Bradlees. However, improvement in the Supermarket Company, Medi Mart and Perkins operations, in terms of both sales levels and expense controls, more than offset the decline at Bradlees. The increase in fiscal year 1973 earnings over 1972 was due primarily to internal operating efficiencies, improved cash and inventory management, the sale of by-products and the recovery of margins on supermarket sales from the depressed levels of the early 1970's.

Consolidated Ten-Year Financial Summary

Fiscal Year Ended (In Thousands)	2/1/75	2/2/74	2/3/73[b]
Sales:			
Supermarkets	$ 894,099	788,764	733,797
General merchandise	$ 329,692	294,193	260,672
Total	$1,223,791	1,082,957	994,469
% Increase over prior year	13.0%	8.9%	9.6%
Cost of goods sold	$ 963,060	862,991	794,985
Selling and administrative expenses	$ 221,767	183,574	169,860
Depreciation & amortization	$ 15,004	14,014	11,616
Interest expense other (net)	$ 2,620	3,040	3,407
Interest expense mortgages	$ 4,023	4,101	3,798
Pre-tax operating earnings	$ 17,317	15,237	10,803
Operating earnings	$ 10,106	8,860	6,400
Percent to sales	.83%	.82%	.64%
Percent to common stockholders' equity	12.4%	12.2%	9.6%
Extraordinary income	$ 1,886	—	—
Earnings per share of common stock:			
Before extraordinary income	$ 3.20	2.81	2.03
After extraordinary income	$ 3.80	2.81	2.03
Reinvested in the business	$ 8,918	6,023	3,562
Dividends paid	$ 3,074	2,837	2,838
Dividends paid per share of common stock	$ .97½	.90	.90
Dividends paid as % of operating earnings	30%	32%	44%
Capital expenditures (net)	$ 14,400	14,672	13,735
Inventories	$ 107,507	98,584	83,518
Working capital	$ 48,221	38,586	36,798
Current ratio	1.65	1.48	1.55
Total assets	$ 261,990	260,087	244,729
Long-term debt less current portion:			
For land and buildings	$ 57,637	59,776	62,221
For other	$ 36,428	38,895	41,125
Stockholders' equity	$ 81,706	72,774	66,751
Per share of common stock	$ 25.91	23.08	21.17
Number of common shares outstanding	3,154	3,153	3,153
Common stock price range—high-low	18¼-9⅛	19-13	26½-14¼
Stores in operation at year end:			
Stop & Shop supermarkets	156	155	154
Bradlees department stores	65	63	56
Medi Mart drug stores	25	22	19
Perkins tobacco shops	39	38	34
Square footage—sales area at year end: (In Thousands)			
Stop & Shop supermarkets	2,762	2,728	2,674
Bradlees department stores	4,419	4,176	3,575
Medi Mart drug stores	279	261	236
Perkins tobacco shops	23	22	20
Total	7,483	7,187	6,505

[a] In July 1966, the Fiscal Year End of the Company was changed to the Saturday nearest January 31, from the Saturday nearest June 30.

[b] 53 weeks.

1/29/72	1/30/71	1/31/70	2/1/69[b]	1/27/68	1/28/67[a]	7/2/66
683,020	603,662	553,046	515,575	459,726	428,939	398,651
224,714	186,288	167,432	139,247	106,635	78,567	71,199
907,734	789,950	720,478	654,822	566,361	507,506	469,850
14.9%	9.6%	10.0%	15.6%	11.6%	8.0%	11.0%
730,060	624,974	570,819	522,182	453,161	409,758	381,193
157,109	139,744	122,610	109,662	93,763	80,453	74,349
9,843	9,419	8,931	7,928	6,839	6,228	5,840
3,188	3,400	1,622	1,155	1,085	840	668
3,034	2,361	2,373	2,084	1,868	1,984	2,011
4,500	10,052	14,123	11,811	9,645	8,243	5,789
3,561	5,637	7,445	6,736	6,113	5,456	3,463
.39%	.71%	1.03%	1.03%	1.08%	1.08%	.74%
5.6%	9.1%	12.6%	12.7%	12.6%	12.6%	8.5%
—	—	—	—	1,773	—	—
1.13	1.80	2.40	2.22	2.02	1.80	1.14
1.13	1.80	2.40	2.22	2.61	1.80	1.14
729	2,819	4,691	4,001	5,391	3,037	1,180
2,832	2,818	2,754	2,735	2,495	2,419	2,283
.90	.90	.90	.90	.82½	.80	.75
80%	50%	37%	41%	41%	44%	66%
38,561	16,824	19,093	18,251	13,018	10,764	8,456
72,753	60,613	58,624	51,469	42,583	43,145	37,167
36,495	50,059	32,969	32,476	24,716	22,045	21,400
1.59	2.20	1.61	1.92	1.88	1.77	1.86
238,337	200,638	188,305	158,432	133,028	124,992	120,745
62,069	45,951	39,297	38,926	32,646	33,173	35,450
43,575	44,800	26,100	26,100	20,000	16,500	16,500
63,153	62,150	59,251	53,040	48,659	43,254	40,795
20.04	19.83	18.94	17.40	16.09	14.30	13.49
3,151	3,134	3,129	3,048	3,025	3,024	3,024
28½-19¾	30⅝-19¾	34¾-23⅞	37⅛-24¼	27⅛-16⅛	19-15⅛	24⅛-15¾
156	149	139	138	134	135	139
53	51	50	52	46	39	36
18	13	6	3	—	—	—
33	28	21	—	—	—	—
2,655	2,460	2,212	2,134	1,978	1,894	1,926
3,322	3,040	2,968	2,949	2,508	2,117	1,959
227	162	76	36	—	—	—
18	14	9	—	—	—	—
6,222	5,676	5,265	5,119	4,486	4,011	3,885

The Stop & Shop Companies Inc., and Subsidiaries
Consolidated Balance Sheet

Assets	February 1, 1975 (In Thousands)	February 2, 1974 (In Thousands)
Current assets:		
Cash	$ 5,107	$ 6,040
Marketable securities	2,985	—
Accounts receivable	6,282	5,648
Insurance claims for fire loss, inventory and business interruption (Note 2)	—	4,888
Receivable from mortgagees for construction costs covered by executed mortgage agreements	—	407
Inventories, at the lower of cost or market	107,507	98,584
Prepaid expenses	966	2,700
Total current assets	122,847	118,267
Fixed assets, at cost (Notes 1 and 4):		
Land	10,248	10,774
Buildings and improvements	96,384	94,677
Fixtures, machinery and equipment	85,475	82,373
	192,107	187,824
Less accumulated depreciation and amortization	68,799	62,644
	123,308	125,180
Leasehold improvements at cost less accumulated amortization	11,664	10,242
Net fixed assets	134,972	135,422
Book value of fixed assets affected by fire (Note 2)	—	2,725
Other assets:		
Notes receivable, etc. at cost	2,640	1,688
Deferred charges (Note 1)	1,531	1,985
Total other assets	4,171	3,673
	$261,990	$260,087

See accompanying notes to financial statements.

Liabilities and Stockholders' Equity	February 1, 1975 (In Thousands)	February 2, 1974 (In Thousands)
Current liabilities:		
Current portion of long-term debt	$ 4,579	$ 4,537
Accounts payable	50,144	53,837
Accrued expenses	13,754	13,684
Federal income taxes	6,149	7,623
Total current liabilities	74,626	79,681
Deferred credits:		
Federal income taxes (Note 6)	10,749	8,961
Other	844	—
Total deferred credits	11,593	8,961
Long-term debt (Note 4):		
Capitalized lease obligation	9,105	9,300
Mortgage notes payable	48,532	50,476
Other notes payable	36,428	38,895
Total long-term debt	94,065	98,671
Stockholders' equity:		
Preferred stock; authorized 500,000 shares, none issued or outstanding	—	—
Common stock par value, $1 per share; authorized 7,500,000 shares, issued 3,213,840 shares and 3,212,915 shares, respectively (Note 3)	3,214	3,213
Capital in excess of par value of capital stock (Note 5)	15,871	15,858
Retained earnings (Note 4)	63,928	55,010
	83,013	74,081
Less cost of 60,299 shares in treasury	1,307	1,307
Total stockholders' equity	81,706	72,774
	$261,990	$260,087

Consolidated Statement of Earnings and Retained Earnings

	52 Weeks Ended February 1, 1975 (In Thousands)	52 Weeks Ended February 2, 1974 (In Thousands)
Retail sales	$1,223,791	$1,082,957
Cost and expenses:		
Cost of goods sold, buying and warehousing costs	963,060	862,991
Selling, store operating and administrative expenses	221,767	183,574
Depreciation and amortization (Note 1)	15,004	14,014
Interest on mortgages	4,023	4,101
Other interest (net)	2,620	3,040
	1,206,474	1,067,720
Earnings before federal income taxes	17,317	15,237
Federal income taxes (Note 6)	7,211	6,377
Earnings before extraordinary income	10,106	8,860
Extraordinary income (less applicable deferred income taxes of $1,058,000) (Note 2)	1,886	—
Net earnings	11,992	8,860
Retained earnings at beginning of year	55,010	48,987
	67,002	57,847
Less cash dividends paid	3,074	2,837
Retained earnings at end of year	$ 63,928	$ 55,010
Earnings per average common share outstanding:		
Before extraordinary income	$ 3.20	$ 2.81
Extraordinary income	.60	—
Net earnings	$ 3.80	$ 2.81

See accompanying notes to financial statements.

Consolidated Statement of Changes in Financial Position

	52 Weeks Ended February 1, 1975 (In Thousands)	52 Weeks Ended February 2, 1974 (In Thousands)
Funds provided:		
Earnings before extraordinary income	$10,106	$ 8,860
Items which do not use (provide) working capital:		
Depreciation and amortization	15,004	14,014
Deferred federal income taxes	380	792
Interest capitalized during construction of major facilities	(154)	(77)
Funds provided from operations	25,336	23,589
Increase in long-term debt	1,293	1,775
Sale of capital stock	14	—
Other deferred credits	844	—
Other	—	383
Settlement of fire claims (Note 2):		
Extraordinary income	1,886	—
Deferred tax	1,058	—
Fixed assets affected by fire	2,725	—
	$33,156	$25,747
Used as follows:		
Expenditures for fixed assets, net of book value of minor disposals	$14,400	$14,672
Cash dividends paid	3,074	2,837
Decrease in long-term debt	5,899	6,450
Other	148	—
Increase in working capital	9,635	1,788
	$33,156	$25,747
Changes in working capital:		
Increase (decrease) in current assets:		
Cash	$ (933)	$ (146)
Marketable securities	2,985	—
Accounts receivable	634	542
Insurance claims for fire loss (Note 2)	(4,888)	—
Receivable from mortgagees for construction costs	(407)	(525)
Inventories	8,923	15,066
Prepaid expense	(1,734)	69
	4,580	15,006
Increase (decrease) in current liabilities:		
Current portion of long-term debt	42	166
Accounts payable	(3,693)	11,832
Accrued expenses	70	1,515
Federal income taxes	(1,474)	(295)
	(5,055)	13,218
Increase in working capital	$ 9,635	$ 1,788

See accompanying notes to financial statements.

Notes to Financial Statements

1. Accounting Policies:

Principles of consolidation:
The consolidated financial statements include the accounts for the parent company and all subsidiaries.

Fiscal year:
The fiscal year of the Company and its subsidiaries ends on the Saturday nearest to January 31. Normally, each fiscal year consists of 52 weeks, but every five or six years, the fiscal year consists of 53 weeks.

Inventories:
Inventories are valued at the lower of cost or market, using the retail method for inventories in retail stores and standard costs, approximating current costs, for inventories in warehouses.

Fixed assets and depreciation:
The Company capitalizes interest during construction of major real estate. This policy has no significant effects on the consolidated financial statements.

Depreciation of fixed assets is computed on the straight-line method at rates which are sufficient to amortize the costs over their estimated useful lives:

Buildings	20 to 40 years
Equipment and fixtures	3 to 15 years
Automotive equipment	4 years

Cost of leasehold improvements is amortized on the straight-line method over periods of 10 to 15 years, or the term of the lease, if shorter.

Federal income taxes:
For federal income tax purposes, accelerated methods of computing depreciation on buildings and equipment are used wherever applicable. Also the research, development and start-up costs for the meat processing and packaging plant deferred on the books (see Deferred charges) were expensed for tax purposes in prior years. Provision has been made for related deferred federal income taxes. Investment tax credits on assets placed in service during the year are accounted for as a reduction in the provision for income taxes.

Store opening and closing costs:
The Company follows a policy of charging off all store opening expenses as incurred. Losses resulting from store closings are charged off as soon as determinable.

Deferred charges:
Certain research, development and start-up costs for the meat processing and packaging plant were deferred and are being amortized over a five year period commencing in the year ended February 3, 1973. The unamortized balance at February 1, 1975, included in Deferred charges, amounted to $576,000, of which $285,000 relates to research and development. There would be no significant effect on net earnings of any year had such research and development been expensed as incurred.

Capitalized lease:
The meat processing and packaging plant, built to the Company's specifications, is leased from the City of Marlborough, Massachusetts. The lease expires in 1998 and annual rentals approximate $700,000. The Company has the right to terminate the lease prior to the expiration date and purchase the facility at a price determined principally by the amount required to enable the City to redeem related outstanding bond financing.

Accordingly, the Company has recorded the land, buildings and equipment on the books as assets at cost and capitalized the related lease obligation as long-term debt.

Earnings per share:
The Company computes primary earnings per share based on the weighted average shares outstanding during the year (3,153,269 and 3,152,616 shares in 1974 and 1973, respectively). Fully diluted earnings per share in each of the years differed from the primary earnings per share by less than 3%.

2. Settlement of Insurance Claims

In the current year the Company received $10,798,000 representing the balance of the $30,000,000 of insurance claims covering the loss by fire in 1969 of its principal grocery distribution warehouse, its contents and related business interruption losses. The excess of the total claim over the book value of assets destroyed and recoverable business interruption losses, net of related taxes, is shown as extraordinary income in the current year.

3. Stock Options

Options under the Company's Qualified Plan are granted at 100% of market value at date of grant and expire in five years. Options are exercisable in four equal cumulative annual installments commencing 18 months after grant date.

Changes are summarized as follows:

	1974		1973	
	Shares	Grant Price	Shares	Grant Price
Outstanding, beginning of year	88,815	14-32⅝	85,103	14½-34
Options granted	53,680	11⅞-16½	27,900	14-16
Expired or cancelled	(13,965)	11⅞-32⅝	(24,188)	14½-34
Options exercised	(925)	14½	–	
Outstanding, end of year	127,605	11⅞-23	88,815	14-32⅝
Exercisable, end of year	30,963	14½-23	14,990	21-32⅝
Available for future grants	24,200		63,915	

4. Long-Term Debt

	1974	1973
	(In Thousands)	
Industrial Revenue Bonds, 5.0% to 5.75%, maturing annually in increasing amounts from $205,000 to $685,000 from 1976 to 1998.	$ 9,105	$ 9,300
Mortgage notes, 4¼% to 10½%, (weighted average of 7.8% in 1974 and 7.7% in 1973) maturing at annual rates of approximately $3,000,000 through 1980, at $2,000,000 from 1981 to 1995, and thereafter at smaller varying amounts through 1999.	48,532	50,476
Promissory note 7.6%, maturing $2,450,000 annually to 1988 and the balance payable in 1989.	36,225	38,675
Promissory note 8.0%, maturing at increasing amounts through 1983.	203	220
	$94,065	$98,671

Long-term debt maturing in the period 1976 to 1980 is as follows:

(In Thousands)

1976—$5,830	1979—$5,462
1977— 5,733	1980— 5,239
1978— 5,711	

The mortgage notes, although not signed by the Company or its subsidiaries, are secured by land, buildings and improvements costing approximately $87,400,000 and by assignments of intercompany lease agreements.

Under the terms of the 7.6% Promissory Note, through 1989 working capital must be maintained at $20,000,000 and certain restrictions with respect to payment of cash dividends or purchase or retirement of capital stock are in effect. As of February 1, 1975, approximately $15,400,000 of retained earnings was not so restricted.

5. Capital in Excess of Par Value of Capital Stock

	1974	1973
	(In Thousands)	
Balance at beginning of year	$15,858	$15,858
Add:		
Excess over par value of proceeds from sale of capital stock to employees under stock option plan	13	—
Balance at end of year	$15,871	$15,858

6. Federal Taxes Charged to Income

The components of federal income tax expense are as follows:

	1974	1973
	(In Thousands)	
Current, net of $801,000 investment credit (1973, $810,000)	$6,831	$5,585
Deferred, related to:		
Excess of accelerated tax depreciation over book depreciation (Note 1)	476	895
Book amortization of research, development and start-up costs, expensed for tax purposes (Note 1)	(121)	(128)
Other	25	25
Net deferred taxes	380	792
Total tax expense	$7,211	$6,377

The federal tax expense in 1974 and 1973 reflected effective rates of 42% compared with the statutory federal income tax rate of 48%. The reasons for these differences are as follows:

	1974	1973
Tax expense at statutory rate	48%	48%
Investment tax credit	(5%)	(5%)
Other	(1%)	(1%)
Effective tax rate	42%	42%

State income taxes are included in selling, store operating and administrative expenses.

Deferred income tax of $1,058,000 arising from fire claims has been deducted from the related extraordinary income in the current years statement of earnings. For tax purposes the Company elected the conversion procedure with respect to this gain.

7. Rental Commitments

At February 1, 1975 the Company had various non-cancellable leases in effect for store properties, office buildings and distribution centers.

The number of stores owned or leased by the Company is as follows:

	Owned	Leased	Total
Stop & Shop Supermarkets	62	94	156
Bradlees Department Stores	11	54	65
Other	12	52	64
	85	200	285

Substantially all of the non-cancellable leases are "operating leases" as defined in the guidelines of the Securities and Exchange Commission. Leases falling within the definition of "financing leases" are not significant and the total present value of such lease commitments and the impact on net income if capitalized would not be material.

The minimum rentals for real estate payable to outsiders by the Company and its subsidiaries, exclusive of real estate taxes, other expenses and additional rents based on a percentage of sales in certain stores are as follows:

(In Thousands)

1975—$16,350	1980 to '84 —$68,356
1976— 16,149	1985 to '89 — 51,462
1977— 15,675	1990 to '94 — 28,907
1978— 15,460	Remainder— 3,314
1979— 15,167	

Rental expense for real estate (net of sublease income) in 1974 and 1973 amounted to $11,200,000 and $10,100,000 respectively.

The Company also, in general, rents its transportation equipment under relatively short-term cancellable leases. Such rentals (net) approximated $850,000 and $750,000 in 1974 and 1973, respectively. Other equipment rentals under cancellable leases approximated $1,400,000 and $1,100,000 in 1974 and 1973, respectively.

8. Retirement Plan

The Company's non-contributory retirement plan is available to all employees meeting age and minimum length of service requirements other than certain union employees covered by union-sponsored plans. The Company's policy is to fund retirement costs accrued, which in the current year amounted to approximately $930,000 ($643,000 in 1973), which includes amortization of prior service cost over a 40 year period. As of February 1, 1975 total plan assets exceeded in value all vested benefit liabilities.

9. Wholly-Owned Realty Subsidiaries—Combined Balance Sheets

	February 1, 1975	February 2, 1974
	(In Thousands)	
Assets:		
Cash and receivables	$ 146	$ 565
Due from parent company	13,087	10,243
Fixed assets at cost:		
Land	9,359	9,895
Buildings and improvements	78,111	77,182
	87,470	87,077
Less accumulated depreciation and amortization	26,754	24,434
	60,716	62,643
Book value of fixed assets affected by fire (Note 2)	—	2,023
Other assets	1,593	746
	$75,542	$76,220
Liabilities:		
Current portion of long-term debt	$ 3,142	$ 3,109
Accounts payable and accrued expenses	1,019	1,227
Deferred federal income taxes	2,477	2,539
Deferred other	844	—
Long-term debt, less current portion above (Note 4)	48,532	50,476
Parent company's equity:		
Capital stock	60	62
Retained earnings	19,468	18,807
	$75,542	$76,220

Accountants' Report

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
ONE BOSTON PLACE
BOSTON, MASSACHUSETTS 02108

The Board of Directors and Stockholders
The Stop & Shop Companies, Inc.:

We have examined the consolidated balance sheets of The Stop & Shop Companies, Inc. and subsidiaries as of February 1, 1975 and February 2, 1974 and the related consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our opinion dated March 25, 1974 on the financial statements for fiscal 1973 was qualified subject to the ultimate realization of the insurance claims for fire loss as described in Note 2 to such financial statements. As set forth in Note 2 to the financial statements for the current year the balance of the insurance claims was received during 1974. Accordingly, we do not now qualify our opinion on the fiscal 1973 financial statements.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Stop & Shop Companies, Inc. and subsidiaries at February 1, 1975 and February 2, 1974, the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

March 14, 1975

Peat, Marwick, Mitchell & Co.

Officers and Directors

William Applebaum
Lecturer on Food Distribution and Comparative Marketing, Emeritus, Harvard Business School.

Norman L. Cahners
Chairman of the Board and Chief Executive Officer, Cahners Publishing Company, Inc.

(3) Albert S. Frager
Treasurer and Chief Financial Officer of the Company.

Donald A. Gannon
Retired, formerly President of the Company.

(1) Avram J. Goldberg
President and Chief Operating Officer of the Company.

Carol R. Goldberg
Vice President, General Manager of the Boston Division of the Supermarket Company.

(2)(3) Donald J. Hurley
Partner, Goodwin, Procter & Hoar, Attorneys at Law

(2)(3) William F. Pounds
Dean, Alfred P. Sloan School of Management, Massachusetts Institute of Technology.

(1) Irving W. Rabb
Vice Chairman of the Board and Chairman of the Executive Committee of the Company.

Norman S. Rabb
Retired, formerly Vice Chairman of the Board and Senior Vice President of the Company.

(1)(3) Sidney R. Rabb
Chairman of the Board and Chief Executive Officer of the Company.

(3) Peter J. Solomon
Managing Director, Lehman Brothers Incorporated—Investment Bankers.

Lloyd D. Tarlin
Senior Vice President and Treasurer, University Bank & Trust Company, and retired Senior Vice President of the Company.

(2)(3) William W. Wolbach
President, The Boston Company, Inc., Financial Holding Company, and Chairman of the Board, Boston Safe Deposit and Trust Company.

(1) Executive Committee
(2) Audit Committee
(3) Finance Committee

Annual Meeting:
June 3, 1975 at 1:30 P.M. at The First National Bank of Boston, First Floor Auditorium, 100 Federal St., Boston, Massachusetts 02110.

Transfer Agent:
The First National Bank of Boston

Registrar:
The National Shawmut Bank of Boston

Auditor:
Peat, Marwick, Mitchell & Company

Counsel:
Goodwin, Procter & Hoar of Boston, Sherin & Lodgen of Boston

General Offices:
393 D Street, Boston, Massachusetts 02210

Shares Traded on:
Boston Stock Exchange
New York Stock Exchange

The Stop & Shop Companies, Inc.
Sidney R. Rabb, Chairman of the Board and Chief Executive Officer*
Irving W. Rabb, Vice Chairman of the Board and Chairman, Executive Committee*
Avram J. Goldberg, President and Chief Operating Officer*
Albert S. Frager, Treasurer and Chief Financial Officer*
Frank A. Crowley, Vice President, Real Estate
Anthony DiNardo, Vice President, Personnel and Marketing Services
Harold E. Fine, Vice President, Engineering and Construction*
J. David Fine, Vice President, Labor Relations
Myles Hannan, Vice President
Arthur Norris, Vice President, Technological Development and Quality Control*
Joseph L. Riemer, Jr., Vice President, Technical Services
Bernard Solomon, Vice President, Civic, Government and Community Affairs
Richard F. Spears, Vice President*
Louis P. Steinberg, Vice President, Advertising, Design and Sales Promotion
Arthur S. Robbins, Vice President, Accounting and Assistant Treasurer*
Joseph D. McGlinchey, Controller*
Carmen J. Gentile, Assistant Treasurer*
Donald J. Hurley, Secretary and Clerk*

Stop & Shop Supermarket Company
Sidney L. Goldstein, President
Anast W. Giokas, Vice President, Sales
Spyros A. Gavris, Vice President, Meat Operations
Ralph J. Lordi, Vice President, Groceries
Richard H. Donlan, Vice President, New Jersey Division
Carol R. Goldberg, Vice President, Boston Division
Lewis G. Schaeneman, Jr., Vice President, Connecticut Division
Donald W. Stowbridge, Vice President, Stores Operations

Manufacturing
Bernard A. Goldman, Vice President

Bradlees Department Store Company
Robert J. Futoran, President
Raymond J. Doyle, Vice President and Merchandise Controller
C. Robert Peacock, Vice President, Operations and Accounting
Sylvia P. Shaine, Vice President and General Merchandise Manager
Martin Baker, Vice President, Marketing

Medi Mart Drug Store Company
Robert J. Levin, President
Timothy A. Hays, Vice President, Stores Operations
Seymour L. Silverstein, Vice President, Merchandising

Charles B. Perkins Tobacco Shops
Robert J. Levin, President
Stephen C. Espo, Vice President and General Manager

E. L. Nason Co. Inc. and Fargo Potato Company
Philip Lane, General Manager

*Corporate Officer

The Stop & Shop Companies Annual Report 1974